CONFERENCE CALL TO DISCUSS STRATEGIC PARTNERSHIP TO DEVELOP ROSTELECOM DATA CENTERS AND CLOUD BUSINESS

Company: **Rostelecom**

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Presenter: **Ekaterina Ustinova, Head of IR**

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Participants:

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Pavel Kaplunov — Vice President for Cloud Services

This English language transcript has been generated from a simultaneous translation of a Russian language call.

*Represents remarks corrected or inserted to reflect the content of the Russian language call

Ekaterina Ustinova, Head of IR: Good afternoon, ladies and gentlemen. We are beginning our conference call to discuss an event of strategic importance to us. At the end of December 2020, we announced a deal—raising capital involving a strategic investor [VTB Bank] into our company, Rosstelecom Data Centers, and today we would like to discuss this transaction and answer your questions. The presentation for today's conference call is on our website in the Strategic Disclosures section of our website. Joining us today on the call, we have Mikhail Oseevskiy, the company president and CEO, first vice president Vladimir Kirienko and VP for Cloud Services Pavel Kaplunov. Let me remind you about our cautionary statement. Some statements made on today's call may be forward-looking statements and can focus on

projections. The actual development may be different from such forecasts. So please do not unduly rely on such statements. We do not undertake to publicly revise such projections. With that, I'm handing it over to Mikhail Oseeevskiy.

Mikhail Oseevskiy, CEO: Good afternoon colleagues. It is with pleasure that today we want to report about this transaction. We believe that it is a very exciting and a very important one. And it confirms the interest in the markets in which we operate. VTB has become a shareholder in our company RTK-DC. I would like to start by explaining why we had this deal in the first place and why with VTB. There are two key factors I would like to highlight. First, the market for data storage and cloud services is growing at a fast pace. Today, my colleagues will share with you their views on this market. In recent years, we have invested actively through M&A deals, and also, by developing new capacities. This is a capital-intensive business which is why having spotted the development potential of this business stream, we thought it would be reasonable to engage a major partner in this market, and one that would have their own interest in using a cloud technology as part of realising the VTB development programme. The second reason that was crucial to this decision was that we wanted to demonstrate the new market valuation of Rostelecom's business streams. We can see in the global market that the multiple potential for telecom companies and for cloud technology is very high. And this deal confirms that. If Rostelecom's multiple is at the level of above four, the deal that we had with VTB has a 7.8 x multiple for RTK-DC on EV/EBITDA. We believe this is just the beginning, we are confident that this valuation will continue to grow as the company as well as the Russian market evolves, as our share in that market is growing. The deal is structured in the following way. We sold our partners almost 45% for some RUB 35 billion, which helps us improve the balance sheet structure of RTK-DC. The company now has negative net debt, and it has increased its own equity. This opens significant opportunities for further developments, and my colleagues will tell you more about plans to attract further funding. In general, we are satisfied with this deal.

As part of the Group's Strategy development, we will certainly cover that aspect. This is one of the fastest growing and high marginal, high performing markets. We see a lot of potential there, including a potential IPO together with our partners at VTB, and we expect to generate greater market valuation of our joint company. That will, of course, have an impact on the Rostelecom's own market value. Thank you. And with that, I will hand it over to my colleagues now.

Pavel Kaplunov, Vice President for Cloud Services: Good afternoon colleagues. I will start by describing the asset itself. RTK-DC is a Group of Companies that brings together 14 entities with a view to create a single platform that enables our customers build their own IT systems

on. We try to offer and sell to our customers a complete set of services from our geo-distributed network of data centers to access systems and with an ecosystem of integration and other services. We want to provide turnkey solutions, so that our customers would only worry about their business without paying too much attention to the technicalities of supporting their IT infrastructures.

Our geo-distributed network of data centers has a national coverage. We try to be present in each of the federal regions. Our data centers have a full range of services aligned with the traditional Tier III and above data center standards. Those include colocation, smart hands, all sorts of services for monitoring of the equipment etc. Our customers can even see the racks on a mobile app and see how they are performing. The next level, as I said, is an access system. And this is not just simple wireline access to our data centers. This is a much more sophisticated network that includes Internet exchange points, content delivery services, and H-cloud that help us build high performing applications and provide maintenance support for websites and platforms with millions of customers. That's also a DNS system, a system of registers and domain names. Essentially, that is the backbone of the Internet, if you will, that can be the basis for any application.

In terms of the cloud services ecosystem, it includes traditional services such as IaaS where we offer infrastructure as a service, and we offer that in various implementations, such as private clouds, public clouds, hybrid clouds. Recently, we have made a lot of efforts and we have now also added PaaS to our portfolio. Now we offer services such as development automation, DevOps and containerization. We'll discuss that in more detail later. On top of that, we offer to our customers various integration services, we offer services to study or review their IT systems, re-engineering, digital transformation and building of their IT systems. All the services related to the change and evolution in IT technology clients can enjoy as a one stop one windows solution – all relying within our platform.

In terms of our market position, today, our company ranks top in all ratings for data centers, cloud services, content delivery, and in the IX market. Currently in data centers, we enjoy a 25% share, in IaaS we have a 26% share, in IX and CDN we have some 30% share.

As I was explaining, RTK-DC is a holding company that's vertically integrated. Our assets include quite well-known names. Well, let me start with Dataline that we acquired last year. That was a systemic player in that market, and we are very happy with the outcomes of that investment, of it now being part of our ecosystem. Our other asset is MMTS9. That's a well-known telehouse in Moscow that makes an important contribution. As I was explaining, our access ecosystem includes MSK Exchange that has a set of exchanges throughout Russia.

That's 11 hubs distributed throughout Russia. Currently, that's number four in Europe and number six worldwide. The group also includes NGENIX company which is a Russian CDN provider that offers services to many media customers and ensures our presence in the media market. The company is further developing. We are now working on creating H-clouds, to start providing protected secure solutions for distributed cloud computing. I would also like to mention the TCI company, which loos after the registers of national domain names such as.ru, .su, .рф which again, combined with our distributed DNS network, represented across all continents, helps build a wide variety of internet solutions.

On top of the pure play service companies, we have quite a lot of our own developments. Recently, together with Rostelecom, we invested quite heavily in software. We have acquired TIONIKS, a company that has its own developments in managing cloud environments and virtual workstations. Last year, we closed a deal with the Yadro company, and have acquired Digital Energy. Based on these two acquisitions we have built an IaaS and PaaS platform that we are now actively marketing. This integration is managed by Rostelecom Digital Technology, which is one of the largest integrators here in Russia. Through integration, through customer support, we have been able to build a good sales channel through which our revenue stream is constantly growing.

A few key numbers, 2020 highlights. Again, that's our guidance, our projections. We expect our revenue to be no lower than RUB 24 billion, OIBDA margin of around40%, and the capacity of our data centers will exceed 12,000 racks. Let me talk a bit more about our data center network that is the backbone of our business. That is the base layer that underlies all of the higher level services. On this slide #8, you can see a map of our data centers. Looking at the images on this slide, in the top left corner, you can see the data center in St. Petersburg, built last year and commissioned recently; again, on the left, the Novosibirsk data center, recently built and commissioned; bottom left, the Udomlya data center, one of the largest in Eastern Europe, built together with our counterparts from Rosatom. We are continuing to develop it. In the middle, the top images, that is a Tier IV data center under construction in Moscow. Here, within last year only, we finished the design and started construction of this facility which has remarkably high levels of security and reliability. The image on the right is a prototype of the data center after construction. You can also see some interiors of our assets. Following the integration of Dataline, we started to offer a single standard of services throughout the country so this image and these services that we offer is what our customers will get in any data center across the country.

A few words about our customer base. You probably know that we service B2B and B2G segments as stated in our strategy. In B2B, our services are being used by more than 50,000

clients, that accounts for more than 60% of our revenues. I don't want to go through all the companies that you can see here on the slide, I guess, you can see that they come from a variety of industries. A few words about B2G. We have a number of projects for various government authorities. I can mention, for example, the launch of a single state information platform for the government, powered by cloud, the first phase of which was completed last year. At the end of last year, we obtained the rights to continue that project through a competitive procedure, through a tender that we have won. Other projects include the digital transformation of the general prosecutor's office where we provide a full range of services from re-engineering of IT systems to essentially offering service at each and every workplace of the general prosecutor's office. A few words about the infrastructure servicing and new developments and maintenance of the IT infrastructure of the Gosuslugi website or an e-government platform. I must say that last year, amidst the pandemic outbreak we had, within a very short timeframe, to re-engineer this solution, and our team managed to do that quite successfully.

Next slide. There, you can see our view of the market and what we believe would be the drivers and what could be the foundation of the group's further developments. It's not even mentioned on the slide, but the main growth driver is the digitalization. I don't want to mention all the mainstream books, published recently on digital transformation, I am sure that you read most of them. That is such a big topic that we even didn't find a way to fit it on the slide. But, in general, if we were to look at the market today, on the one hand, it's the growing trend for digitalization and the transition to online, and on the other hand, it is the legacy and the state of the existing digital systems, IT systems. That's the on-prem equipment. In recent years, the trend in the market was to have everything on prem: one has their own data center, it doesn't matter if it exists in a basement of an office center. It is there, and they are comfortable with that. But this approach has certain drawbacks. Such data centers don't have high security levels, they have issues with cooling, and you've got to think about how to develop and expand them further, what to do next. And this is a window of opportunity of outsourcing IT services. Exactly where we come in. Other factors mentioned on the slide also sort of fall into that category. That's the high cost of maintaining captive infrastructure. That's the high cost of international solutions and the drive for import substitution that the deficit of space, all of that paves the way for the solutions we provide. In addition, it should be that the transition to online leads to a fundamental evolution of systems themselves. If previously, they were more like store windows on the Internet, now when everything moves online, these systems and approaches to their development have been taken to a whole different level. Things like DevOps, and agile, and other buzzwords are very much in demand. And the fact that a bit earlier I talked about, the turnaround of the e-government's portal, that is a good example. Prior to the pandemic that was essentially a

queue system, that was a system applications processing through store windows. Since the pandemic breakout it has developed into a processing system that serves people. And we have been able to ride that trend because we were able to respond on time, because we were able to supplement our business offering with PaaS solution that was very much in demand in the market.

I would like to conclude with the goals and objectives set out by our two shareholders now. They seem to be aligned on that, which is good news. So those are maintaining strategic leadership. And for that, we will continue to expand our construction; we will continue to expand our computing powers; we will continue to expand our services; we will continue to transition, as I said, from IaaS to PaaS; we will expand our product offering and product range; we will continue to expand our in-house competencies; we will continue to develop our captive software, because the ability to develop software increases competitiveness and because of the licensing that also increases margins; we will continue and develop with that experience. Developing sales channels and the combination of organic and inorganic growth, we are very much in support of partnerships. We have done a lot on that and will continue to develop along that track in the future.

In terms of key forecasts for 2025, revenue of over RUB 45 billion, 45% OIBDA margin and the capacity of our data center racked up over 20,000. That's all from me, I will be very happy to answer your questions now.

Ekaterina Ustinova, Head of IR: Thank you, colleagues. We will now proceed to the Q&A session. Sergey, our operator, will read out the Q&A instructions. This time we will start taking questions from the Russian line. Once again, please remember to ask the questions in the language of the lines to which you are connected. Thank you.

Operator: Thank you. [Operator instructions]. Our first question comes from an analyst from Gazprombank.

Anna Kupriyanova, Gazprombank: Good afternoon. Thank you for your presentation on such an exciting subject. I have a couple of questions, if I may. First is about your positions in B2G and B2B, and B2C I would like to add here, and your development prospects. How do you see the market evolution? Apparently, you're not the only company that's actively developing in that segment, although currently you have a leading position. So how actively do you want to go into B2C? Do you see competition from companies such as Yandex, SberTech, Mail.ru Group or MTS for example? In terms of your market share in each of those segments, that would be very useful to know. That was my first question. And I will then ask my second question.

Ekaterina Ustinova, Head of IR: Anna, can you please ask your second question as well?

Anna Kupriyanova, Gazprombank: Okay. My second question is more of a technical nature. It's about what do you include in a revenue of colocation and IaaS? Does that include the revenue from SaaS/PaaS and cyber security? If yes, then can you please, perhaps, break down those shares of revenue for us? Yes.

Vladimir Kirienko, First Vice President: Thank you. I'll take your first question and Pavel will answer your second question. You're right.
We see the B2B segment and separately the B2G segment. We believe that the public versus private cloud is the right approach. Our customers understand that cloud infrastructure, they have development strategies for three to five years, and they can formulate what kind of a box solution they need, if you will.

As a reminder, we started developing our cloud model from a colocation model, essentially offering space in our data centers and maintaining this level of SLA. Then we migrated to IaaS model, offering hardware catering to what the customer needed. But we believe important contribution to added value comes from a combination of infrastructure, while developing our own product solutions and IaaS model. Often we offer our customers new architecture and technology solutions that help them address the growing business and online expansion within a closed ecosystem of services within the organisations. So in terms of strategy, the B2B and B2G are the backbone of our strategy.

In the nearest future, we don't see us play an active role in the B2C market. You are right in saying that, in that area, there are some international players and there are some local players that are quite active. To reiterate, the reliability and security of the data centers of our RTK-DC is what raises the interest of large investors. Pavel mentioned the Tier IV level of reliability, which provides more a minimal down time, which is important for major corporations as well as large companies. In terms of the mass segment, people are prepared to go into cheaper solutions but with relatively lower SLAs, which is unacceptable for some larger corporate systems.
Then again, we try to segregate the businesses by their core competences. Rostelecom data center is a separate area. This is something that includes the infrastructure, the cloud, c cloud-related projects etc. But security is concentrated in RTK-Solar. Even if it's a joint project that involves integration, cloud and security, all of that cyber security revenues go through that separate branch, and Rostelecom as the project lead works through both of those arms – RTC Data Centers and RTK Solar. Very often our clients do not overlap. The largest synergy in 2020 we received from cyber security clients, had initially come for cloud and vice versa.

Anna Kupriyanova, Gazprombank: Are you prepared to disclose your market shares in B2B and B2G?

Vladimir Kirienko, First Vice President: Well, we don't divide it in such a way. In our slides you can see that we believe that our market share is in the range of 25 to 30%, ballpark. So we believe that in the data centers market, we have some quarter of the market, in IaaS also about a quarter of the market, and in IX we are approaching 30% in terms of market share.

Why can't we clearly answer in terms of the accurate market share? Because there is a number of ways one can assess the market. When a company has its own infrastructure, and Pavel was explaining that they have got their own captive data centers then, you know, in the future that will be a modernisation market. And companies often decide to transition to more advanced systems to sacrifice their captive systems in favor of cloud. This means that this market is much bigger compared to the size defined by the investor community. Again, if we look at the statistics, it often brings together only the data center players because the information about the costs of major companies is not always public. Not because the companies are willing to hide that, but when you have your IT function in-house you're not in a position to disclose those costs. But we have tried to explain to our customers that with a transparent procedure, our customers can realize a lot of savings by transitioning to the new approach. So we are quite optimistic about the market growth.

Addressing your other question, we believe that our share would grow ahead of the market.

Anna Kupriyanova, Gazprombank: Thank you.

Pavel Kaplunov, Vice President for Cloud Services: One of your questions was about competition with Yandex and Mail.ru. I want to add here that we operate in different segments. If Yandex and Mail.ru are more for box products for the mass market, then our product is managed cloud. That's a higher level of quality, that's a different level of support, that's migration of sophisticated systems. That's not box solutions, that's rather individual solutions. The analogy would be the mass market versus boutique, and we are a more of a boutique that offers a high level of reliability. That's our core differentiation.

Your other question was about revenue and how we calculate revenue in colocation. Well, we do that in a very straightforward way. We have a rate for racks and auxiliary services. The revenue that is generated by the data center through colocation of the customer and offering service to them, that is included in the colocation revenue. You also had a question about how we calculate the revenue in IX. Is that correct?

Anna Kupriyanova, Gazprombank: My question was, what revenue you include there, whether it includes cybersecurity. And you partly answered that, whether that includes SaaS/PaaS, etc.?

Pavel Kaplunov, Vice President for Cloud Services: No. Data center services are calculated separately.

Anna Kupriyanova, Gazprombank: So essentially, the 24 billion is that data centers and IaaS?

Pavel Kaplunov, Vice President for Cloud Services: Well, that's data centers, IaaS, IX, content delivery, sales of our software and integration services. We have quite a wide range of services, I was explaining what they are. All of that is included in the 24 billion.

Vladimir Kirienko, First Vice President: Information Security is a separate area. As part of our quarterly earnings disclosure, we post the numbers and dynamics for Information Security business.

Ekaterina Ustinova, Head of IR: Same as IP telephony, which can also be seen as SaaS, but that's not part of the 24 billion. The next question, please.

Operator: Next question comes from Alexander Vengranovich, Renaissance Capital.

Alexander Vengranovich, Renaissance Capital: Good afternoon. I also have a couple of questions. First, as a follow up on the previous one, since we are on the revenue mix, can you please give us more color about how that 24 billion can be broken down by segments if at all possible? My second question is about the profitability. You say OIBDA margin is now 40%, and you expect it to grow up to 45%. That's quite high level versus your competition. Many have lower levels of margins, and some even have negative margins. So what's the reason for that? Do you think that's because that's a nascent market and your profitability will go down with time, or is this driven by the service mix that you offer to the customers and you see this profitability level more of a normal one for this type of business? Thank you.

Vladimir Kirienko, First Vice President: Thank you for your question. We believe that all the three areas have roughly the same share. We don't disclose the actual split, but colocation and IaaS roughly have the same share.

In terms of profitability, we believe this is not a temporary reflection of the market. We believe that the benefits such as the economy scale, the competent team and the value chain creation

approach help us look into the future with confidence, we'll be able to achieve around 45% of profitability. Again, that's not because we use inflated prices. Often our customers when they migrate from private clouds to our RTK DC clouds are able to realize quite substantial savings while increasing the level of reliability. So again, we're quite confident in terms of the future, in terms of profitability.

Pavel Kaplunov, Vice President for Cloud Services: Our numbers are very similar to the other industry leaders. It's a question of who you want to compare us to. If you were to see us as the likes of major international companies, such as Equinix and Verizon Enterprise Solutions, look at their revenue and look at the margins and you will see that we are very much like them in terms of assets and in terms of performance.

Alexander Vengranovich, Renaissance Capital: Clear Thank you. If I may a quick question about CAPEX. As part of your plan, you want to increase the number of racks to 20,000 within five years. Is my understanding correct? Well, you haven't disclosed the CAPEX, but if you were to discuss the overall level of CAPEX that will help you grow to that level that would be very useful. Or we could take this from a different angle. What was the reason for the sale of exactly the 44.8% interest? Was that driven by your CAPEX program? Did you essentially make a CAPEX forecast? And then you also took accounts of the business margins in five-year time and the debt to EBITDA, and that drove the actual amount of the transaction.

Vladimir Kirienko, First Vice President: Yes, a couple of points. First, while being a leader in the market, we don't have a lot of debt. We are quite comfortable in terms of investments because they are broadly safe, self-financed. But of course, we do need investments to maintain a leadership position and drive growth. As Mr. Oseevskiy mentioned at the beginning, building data centers is a capital intensive business. But thanks to high profitability, we are able to pay back on those investments. In terms of the timescale of our investments in data centers, we forecast that we will need tens of billions of rubles of CAPEX, but we'll be able to pay that back. We don't provide more detailed forecasts because that would depend on the penetration of our services within our client base. But our interest is not that companies come to us for colocation only, or not so much for collocation. We want them to benefit from the entire value chain, starting from infrastructure to IaaS solutions. If we have a choice, and believe us, we have to choose among our potential customers, because our data center racks are almost 100% occupied, we choose those organisations that are interested in the entire product range. So CAPEX would depend on the actual needs of our customers.

Ekaterina Ustinova, Head of IR: Thank you. And we are ready to take the next question.

Operator: Anna Kurbatova, Alfa Bank.

Anna Kurbatova, Alfa Bank: Good afternoon. Thank you for the presentation. My question is this. In fact, I have a couple. One point clarification. At the time of the press release on the transaction, there was a mention that the 35 billion part of the funds will be used to pay down the debt of RTK-DC. First, can you please tell us the current level of debt of the company? And if it needs to be paid will it be paid in full or partly? What level of debt should we expect going forward? My second question is more of a strategic nature about the transaction in general. As you talk about the potential IPO within a three-year time but also you announced your strategic plan for five years, it would be interesting to know what the trigger would be. What critical size of the business do you see to make the Company ready for an IPO? And aside from the monetization through IPO, that is factored into the agreement with VTB, do you see any other exit opportunities? Or is that a priority option?

Mikhail Oseevskiy, CEO: Let me address this IPO. The question: why are two different timeframes? The possibility of an IPO is one of the attributes of this transaction. Our colleagues from VTB, and we see them primarily as a financial partner, want to have an opportunity to sell all or a part of the stake in the open markets, and we welcome this approach. As I explained, we believe that we'll be able to realize at different levels of market value that would also apply to Rostelecom. I would also like to say that Rostelecom has no plans to go below the controlling stake. For us, the IPO, the primary driver for that would be to enhance the value of RTK-DC and through that – enhance the value of Rostelecom as well. That's why we have a five-year strategy but we have a three-year IPO period.

Vladimir Kirienko, First Vice President: Talking about raising capital, in slide 2 or 5 of the presentation, I would like to highlight that we obtained funds on a cash-in basis; essentially, the equity of data center subsidiary was enhanced. And currently, we have negative net debt.

Anna Kurbatova, Alfa Bank: Thanks for the answer.

Ekaterina Ustinova, Head of IR: Thank you. We are now ready to take the next question.

Operator: It comes from Ivan Kim, Xtellus Capital.

Ivan Kim, Xtellus Capital: Yes, good afternoon. Thank you for a very detailed presentation. I have a very short question about the strategy presentation. When should we expect the presentation of the new five-year strategy?

Mikhail Oseevskiy, CEO: We still aim for the end of Q1. Yesterday, we appointed a new VP for Strategy, Sergey Krylov who brings a lot of experience from McKinsey. He is supposed to finalize that. We are still targeting the end of Q1. It might take a bit longer to finalize that, but we don't want to make it much later than that. Thank you.

Ekaterina Ustinova, Head of IR: Thank you. Next question, please.

Operator: We currently have no further questions in the Russian line. We'll take a question from the English line. Our next question comes from Henrik Herbst of Morgan Stanley. Please go ahead.

Henrik Herbst, Morgan Stanley: Yes, thanks. Thanks very much. And thanks for the presentation. I have a few questions, please. Well, firstly, can you talk us through the valuation, I guess it's 7.8x EV/EBITDA 2020, which means, given the presumed growth of the business, quite a lot lower valuation on 2021. So just if you can talk us through how you got to that valuation, maybe what type of growth you've seen in the business so far? And then also, when you say you expect a higher valuation at the time of the IPO, is that in absolute terms just in RUB EV value? Or you are also seeing a higher multiple. And if that is the case, can you please talk us through what you're basing that on? What will drive that sort of rerating of the business? Then secondly, I was just wondering, I mean, you're in net cash now. Can you maybe talk about what you think is the right type of leverage for a business like RTK-DC? And how you're going to get through this? Is it only by investments or do you think the business can actually pay you a little bit of dividends along the way? And then, sorry, quite a few questions here but the last one. In terms of the growth, I mean, it's quite impressive growth you're expecting for the business, would you be able to give us some indication how you think about the split of that between organic and inorganic? Thank you very much.

Mikhail Oseevskiy, CEO: Thank you. Let me take some of these questions and my colleagues will follow up. First, we believe that as the Company's share in the market is supposed to grow, as well as its revenue and EBITDA, that would be the main driver of its valuation growth. However, we do believe in the potential of a further multiple increase. If you look at global companies, they trade at the multiples of 20x. Of course, we don't want to compare ourselves to Amazon, but we see the potential there. We can see a lot of investor appetite to the leading companies in the industry, and we believe that when we take the company public, we expect to see a higher multiple. We believe it can be above 10x. In terms of our debt policy, we will target the standard approach of up to 3x EBITDA but if we see higher growth rates, then we might temporarily go a bit above that. But still, we wouldn't want to surpass the standard approach to the acceptable debt level.

Vladimir Kirienko, First Vice President: In terms of EV, it's shown here on the slide; the number there was some 75 billion rubles. Thank you. Next question, please.

Operator: We currently have no further questions. As a reminder, to ask a question, please press star one on your telephone keypad. We have a follow-up from Andrei Maksimov, Tor Capital. Please go ahead.

Andrei Maksimov, Tor Capital: Yes, a short question from my side. We have the current business valuation for this transaction. And I wonder how much has Rostelecom invested in the actual companies for the creation of RTK-DC Group – both through direct capital infusion and M&A deals. In other words, what value have you already created for the shareholders? Thank you.

Vladimir Kirienko, First Vice President: Let me try to address this again. The valuation level comes from independent valuation from Big four that we engaged together with VTB in order to run an independent valuation and business assessment. The amount that Rostelecom has invested to create these assets is lower. But we don't disclose those details because the history of data center development is the newest history of Rostelecom if you will. It's only three to four years ago that we closed our first deal with Safedata. And at that time, we were ranking in the top 10 of players. So you can see that in a very short timeframe, we have been able to become a leader in that area.

Operator: And we can now take the next question. A follow-up from Alexander Vengranovich, Renaissance Capital.

Alexander Vengranovich, Renaissance Capital: I have two questions to follow up. First, I have asked that already, but I didn't seem to get an answer. In terms of the sale of the 44.8% in that company, the stake, was that driven... What was the logic in making that 44.8 rather than 25 or 50? And my second question is about CAPEX, a follow-up on that. Is my understanding correct that your CAPEX, in addition to the acquisition of racks and construction of data centers, also includes the cost of developing your own cloud services and your products? And if yes, then how big is that component?

Vladimir Kirienko, First Vice President: Thank you. In terms of the RUB 35 billion investment, when developing the valuation model, we looked at the business plan for the next few years. And we raised the investment in the amounts that we thought would be necessary to achieve our strategic objectives. In terms of CAPEX that includes construction, equipment acquisition, and also IaaS solutions. In particular, something we mentioned that was the TIONIX

virtualization platform that we can be proud of and our new joint solution together with the YADRO Company. The costs that we spend on the development of our own products and SaaS solutions, those costs we capitalize. We don't disclose more details about CAPEX. But currently, that component is under 20% of the total CAPEX.

Pavel Kaplunov, Vice President for Cloud Services: To add, CAPEX also includes the acquisition of larger computing power equipment. Its worth mentioning that for the building of cloud platforms and private clouds, we are using our own equipment. That is why a lot of CAPEX is largely an investment in computing power.

Vladimir Kirienko, First Vice President: It's important to understand on margins, it's not just repackaging the equipment and selling it to the customer. The key component of profitability is the development of certain commodities architecture technology solutions that we use to provide private clouds. It's the right packaging of PaaS solutions that helps us develop very scalable cloud solutions that can be very quickly deployed for various types of customers. That is why we want to help customers use the exact volume of services that they need, rather than acquire anything in advance to allow for the possibility to use them in order to further maintain the growth pace. And that's what many companies find attractive, including for state companies, but also private companies that can deploy our infrastructure in a very flexible way and across various areas of our country.

Operator: The next question comes from Anna Kurbatova of Alfa Bank.

Anna Kurbatova, Alfa Bank: Thank you for taking a follow-up. In terms of CAPEX, can you talk about your plans of expanding your racks number to 20,000? Anything in terms of the regional aspect of that as well as the time frame. Can you please give some more color on that expansion strategy?

Pavel Kaplunov, Vice President for Cloud Services: Colleagues, we have a plan of regional expansion as I was explaining last year we built data centers in Novosibirsk and St. Petersburg, the year before we commissioned a data center in Yekaterinburg. we are now building a second phase of the data center in Yekaterinburg. And we plan that this year, early next year, we'll commission a first data center in the Volga Region. We continue enhancing Udomlya DC. Now, the first data center has been ramped up to full capacity. Now we are working on the second data center there. That is our regional development strategy. Again, our objective is to be present in all federal constituents.

Vladimir Kirienko, First Vice President: In terms of the incremental volume, we can see, Moscow is the center of our cloud infrastructure. We follow our customers and many major IT systems are deployed in Moscow with geo-backup in or across the country. A lot of our strategy focuses on Moscow.

Anna Kurbatova, Alfa Bank: Another follow-up, if I may, is a bit unusual. In the past few weeks of the late last year, there was a media report, the idea was about developing data centers in the Arctic area. What's your view on that? Is that in your plans, and what's your take on that?

Mikhail Oseevskiy, CEO: Yes, indeed, that's an exotic idea that, from time to time, ventured by people who don't perhaps understand the context of this business. First, as Vladimir explained, even today, the data centers sit close to the customers and going further with the development of 5G networks, the low latency requirements will become increasingly important. From that standpoint, we will continue to build data centers in major cities. If we were to build a data center somewhere in the middle of the Arctic, first, we would be struggling to find the people to work there. Second, the latency would be significant, and even if they are acceptable to transfer a lot of traffic, we would need to build very powerful transmission lines. That doesn't make a lot of sense. Perhaps the only benefit of locating such assets up north would be to reduce cooling costs. But there are many technical details that as you analyze that further really offset that potential benefit. We believe that this idea is artificial. We are not contemplating that and we are advising against that.

Anna Kurbatova, Alfa Bank: Thank you.

Mikhail Oseevskiy, CEO: You're welcome.

Ekaterina Ustinova, Head of IR: Okay, thank you for your participation, for your attention. The recording of the call will be available on our website. If you missed anything, you will be able to listen to it again. And as always, we are available for follow-up. Thank you, and goodbye.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.